

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 SAM-01 /088 W

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R 141556Z OCT 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 4604

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMCONSUL OPORTO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMCONSUL PONTA DELGADA

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION NATO

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E.O. 11652: N/A

TAGS: EFIN, PO

SUBJ: BANK OF PORTUGAL'S LIQUID RESERVES

REF: LISBON 5994

1. FINANCE MINISTRY'S OCTOBER 10 COMMUNIQUE EXPLAINING BANK  
OF PORTUGAL'S (BOP) MANAGEMENT RESHUFFLE (SEE SEPTTEL) DISCUSSED  
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BOP LIQUID RESERVE POSITION. COMMUNIQUE CRITICIZED PREVIOUS

ADMINISTRATIONS FOR NOT HAVING OBTAINED MORE FOREIGN CREDITS. GOVERNMENT MUST, IT STATED, NOW SEEK FOREIGN LOANS UNDER WORST POSSIBLE CONDITIONS FOR PORTUGAL. TRADE DEFICIT THIS YEAR, IT PROJECTED, WILL BE 55 BILLION ESCUDOS (ABOUT \$2 BILLION) AND BALANCE OF PAYMENTS DEFICIT WILL BE SOME 30 BILLION ESCUDOS (ABOUT \$1.1 BILLION). LATTER DEFICIT, COMMUNIQUE ASSERTED, WOULD EXHAUST LIQUID RESERVES BEFORE END OF YEAR.

2. COMMENT: EMBASSY HAD PREVIOUSLY BEEN TOLD THAT BOP LIQUID RESERVES COULD BE EXHAUSTED IN NOVEMBER. SUCH PROJECTIONS, HOWEVER, WERE BASED ON ARTIFICIALLY STATIC CONCEPT, IE., CONTINUATION OF HIGH OUTFLOW WITHOUT ANY LARGE NEW CREDITS. ACTUALLY, GOP WILL DRAW DOWN REMAINING PORTION OF ITS BIS LOAN (ABOUT \$50 MILLION) AND WILL PRESS ITS CASE AT IMF, BOTH FOR FIRST CREDIT TRANCHE AND FOR OIL FACILITY LOANS. THESE CREDITS, AS WELL AS SEVERAL OTHERS THAT ARE ANTICIPATED, COULD REDUCE BALANCE OF PAYMENTS DEFICIT THIS YEAR TO ABOUT \$950 MILLION AND EXTEND LIQUID RESERVES INTO JANUARY. IF ALL OF THESE CREDITS DO NOT MATERIALIZE, GOP PROBABLY CAN, WITHOUT CAUSING EXCESSIVE HARDSHIP, FORCE COMMERCIAL BANKS TO REDUCE THEIR EXCHANGE HOLDINGS.

3. FOR MEDIUM TERM, GOP RELYING ON TWO BASIC STRATEGIES, (1) INTERGOVERNMENTAL CREDITS, AND (2) PRIVATE BANK LOANS SECURED BY GOLD. GOP EXPECTS BEGIN DETAILED NEGOTIATIONS THIS WEEK WITH EUROPEAN COMMUNITY FOR PROJECT LOANS. IT ALSO ANTICIPATES SIGNIFICANT U.S. ASSISTANCE. TO OBTAIN PRIVATE LOANS, GOP PREPARED TO OFFER GOLD SECURITY. IT IS NEGOTIATING GOLD PLEDGE AMENDMENT FOR \$150 MILLION LOAN FROM CONSORTIUM LED BY CITICORP OF LONDON. NEGOTIATIONS ENCOUNTERING DIFFICULTY AS CITICORP INSISTING ON HAVING : (A) POSSESSION OF GOLD, AND (B) UNILATERAL RIGHT TO SELL GOLD SHOULD GOP NOT IMMEDIATELY OFFSET DECLINE IN GOLD MARKET PRICE. BOP OFFICIALS TRAVELED LONDON LAST WEEKEND TO RESOLVE THIS IMPASSE AND, PRESUMABLY, TO EXPLORE POSSIBILITIES FOR ADDITIONAL CREDITS.

4. FOR LONGER TERM, GOP ECONOMIC TEAM WELL AWARE THAT IT MUST STOP EXCHANGE HEMORRHAGE. IT WILL PUBLISH EMERGENCY PROGRAM TOWARD END OF MONTH, BUT ITS INITIATIVES MAY FACE CONSIDERABLE OPPOSITION. CARLUCCI

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## Message Attributes

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